Zacks Small-Cap Research

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Applied DNA Sciences (APDN-OTC)

APDN: Another strong quarter for the three months ended June 30, 2015; balance sheet boosted, businesses continue to grow--Buy

Current Recommendation	**Buy**
Prior Recommendation	Neutral
Date of Last Change	08/21/2013
Current Price (08/14/15)	$3.36
Twelve- Month Target Price	**$10.00**

OUTLOOK

We are optimistic about the Company's unique technology and two principle anti-counterfeiting and product authentication solutions: SigNature DNA and fiberTyping, which can be used in numerous industries. With an ever booming anti-counterfeiting business worldwide, along with its unique technology and broad range of product offering, the Company is well positioned to grow in the coming years.

APDN reported record revenue for fiscal 3Q15 ended June 30, 2015. We expect to see further growth of revenue in the rest of fiscal 2015 and beyond.

SUMMARY DATA

52-Week High	**$7.01**
52-Week Low	**$2.08**
One-Year Return (%)	**-45.63**
Beta	**2.30**
Average Daily Volume (sh)	**60,441**
Shares Outstanding (mil)	**21**
Market Capitalization ($mil)	**$72**
Short Interest Ratio (days)	**2.56**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Protection-Sfty**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(In millions of $)

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2014	0.60 A	0.64 A	0.84 A	0.65 A	2.72 A
2015	1.24 A	1.52 A	2.27 A	2.00 E	7.03 E
2016					12.00 E
2017					17.50 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2014	-$0.28 A	-$0.20 A	-$0.14 A	-$0.15 A	-$0.77 A
2015	-$0.25 A	-$0.11 A	-$0.08 A	-$0.12 E	-$0.52 E
2016					-$0.22 E
2017					$0.00 E

Zacks Projected EPS Growth Rate - Next 4 Years % **N/A**

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WHAT'S NEW

- Revenue increased 170% for the fiscal third quarter of 2015; and revenue surpassed the $5.0 million mark for the first nine months of the fiscal 2015;
- New financing boosts balance sheet;
- Business continues to grow;
- We maintain our Buy rating and reiterate our 12-month price target of $10 per share;

Another Strong Quarter for APDN

On August 10, Applied DNA Sciences (APDN) announced financial results for its fiscal third quarter ended June 30, 2015.

Total revenue for fiscal 3Q15 was $2.3 million, an increase of 170% compared to the total revenue of $0.8 million for the fiscal 3Q14. This also represented a 49% increase from the $1.5 million reported in the second fiscal quarter ended March 31, 2015. Revenue of fiscal third quarter of 2015 easily beat our estimate of $1.6 million.

The increase in revenues resulted primarily from sales in the textile industry for protecting cotton supply chains and revenue from two government contracts.

	Three Month Period Ended June 30,		Variance		Nine Month Period Ended June 30,		Variance	
	2015	2014	$	%	2015	2014	$	%
Revenues	$ 2,267,671	$ 841,197	1,426,474	170%	$ 5,028,234	$ 2,075,698	2,952,536	142%
Operating expenses:								
Selling, general and administrative	3,508,455	2,948,452	560,003	19%	11,078,405	10,093,631	984,774	10%
Research and development	310,093	266,331	43,762	16%	961,745	1,085,416	(123,671)	-11%
Depreciation and amortization	121,339	113,424	7,915	7%	354,144	325,448	28,696	9%
Total operating expenses	3,939,887	3,328,207	611,680	18%	12,394,294	11,504,495	889,799	8%
LOSS FROM OPERATIONS	(1,672,216)	(2,487,010)	(814,794)	-33%	(7,366,060)	(9,428,797)	(2,062,737)	-22%
Other income (expense)	1,334	567,953	566,619	-100%	(4,019,042)	(1,532,346)	2,486,696	162%
NET LOSS	$ (1,670,882)	$ (1,919,057)	(248,175)	-13%	$ (11,385,102)	$ (10,961,143)	423,959	4%

R&D expenses for fiscal 3Q15 were $0.31 million, compared to $0.36 million for fiscal 3Q14.

SG&A expenses for fiscal 3Q15 were $3.5 million, compared to $3.3 million for fiscal third quarter of 2014.

Total operating expenses for fiscal third quarter of 2015 were $3.9 million, compared with $3.3 million in the prior year's quarter, an increase of approximately $0.6 million (18%). The increase is primarily attributable to an increase in non-cash stock-based compensation expense of $0.6 million, offset by a decrease in legal fees.

Net loss for the three months ended June 30, 2015 was $1.7 million ($0.08 per share), compared with a net loss of $1.9 million ($0.14 per share) for the three months ended June 30, 2014 and a net loss of $1.9 million ($0.11 per share) for the three months ended March 31, 2015.

Adjusted EBITDA for fiscal third quarter ended June 30, 2015 was negative $0.5 million, compared to a Adjusted EBITDA of negative $1.9 million (an improvement of 75%) for the same quarter last year and a negative Adjusted EBITDA of $1.2 million (a decrease of 61%) for the fiscal second quarter of 2015.

	Three Month Period Ended June 30,			Nine Month Period Ended June 30,		
	2015	2014	% Variance	2015	2014	% Variance
Net Loss	$(1,670,882)	$(1,919,057)		$(11,385,102)	$(10,961,143)	
Interest expense (income), net	(5,052)	(111)		26,807	(784)	
Depreciation and amortization	121,339	113,424		354,144	325,448	
(Gain) loss on change in fair value of warrant liability	-	(515,543)		2,994,540	1,663,316	
Stock based compensation expense	1,057,097	404,507		3,595,631	2,055,337	
Loss on conversion of promissory notes	-	-		980,842	-	
Bad debt expense	18,971	734		21,750	16,878	
Total non-cash items	1,192,355	3,011		7,973,714	4,060,195	
Consolidated Adjusted EBITDA (loss)	**$ (478,527)**	**$ (1,916,046)**	**-75%**	**$ (3,411,388)**	**$ (6,900,948)**	**-51%**

We are very impressed by the 170% revenue growth for the fiscal 3Q15. With the recent financing and increased business activities, we believe revenue will continue to grow in the rest of fiscal 2015 and beyond.

New Financing Boosts Balance Sheet

In April, 2015, APDN closed an underwritten public offering of 4,011,000 shares of common stock and warrants to purchase up to an aggregate of 1,604,400 shares of common stock, at a combined offering price of $3.00, including 191,000 shares and 76,400 warrants sold pursuant to the partial exercise of the underwriters' over-allotment option. The warrants have a per share exercise price of $3.50, are exercisable immediately, and expire on November 20, 2019.

The gross proceeds to the Company from this offering are $12.0 million.

The underwriters still have a 45 day option to purchase up to an additional 382,000 shares of common stock and 152,800 warrants, to cover additional over-allotments, if any.

This offering is a great boost to the company's balance sheet. As of June 30, 2015, APDN held $10.7 million in cash. With the new financing, current cash should be able to fund the company's operations into fiscal 2017, in which the company will become cash flow positive.

New Business Development

In June, 2015, APDN partnered with the Fairfield (NJ) Police Department to create the first DNA Protected Community in New Jersey. The DNA Home Asset Marking Program has been introduced to an exclusive adult community in Fairfield. Utilizing the Company's DNAnet® plant-based DNA product, the program is intended to deter crime and assist law enforcement in returning stolen property to owners. This initiative follows the Company's previously announced partnership with law enforcement and government agencies in Suffolk County, NY, to utilize DNAnet in a pilot program to protect home and business owners, and is followed by the training of law enforcement in other parts of New Jersey.

Also **in June, 2015**, APDN partnered with the Camden County Police Chiefs Association (NJ) to launch the DNA Home Asset Marking Program for residents throughout Camden County, NJ.

The DNA Home Asset Marking Program enables home and business owners to mark property with a unique and invisible plant based DNA specific to the owner. The DNA mark on the property is easily identifiable by law enforcement utilizing ultraviolet light. The DNA mark is nearly impossible to remove.

Homeowners who mark personal property with the plant-based DNA are supplied signs and window decals warning would-be intruders that their property is marked with plant-based DNA.

On June 16, 2015, APDN signed an agreement with Louis Dreyfus Commodities, one of the world's largest cotton merchandisers, to provide secure logistic supply chain support for the tagging and authentication of cotton fibers with SigNature® T DNA derived from botanical genomes.

Using APDN's patented SigNature T DNA technology, cotton fibers can be DNA-tagged at the source or country of origin, allowing purity of content verification at all stages of the supply chain. Bulk quantities of last year's Pima harvest have already been processed using this method and are currently being verified throughout the supply chain, from the ginner, to the spinner and ultimately to the manufacturer. This year's SigNature T tagging will begin at the start of the ginning season, at various locations in the United States.

Louis Dreyfus Commodities will collect the DNA-marking fees from its customers and pay them to APDN. It will also pay APDN to install their unique, patent-pending "DNA Application Systems" at each new gin, typically capable of DNA marking up to 50 million pounds of cotton per season. The DNA Application System measures the botanical DNA so that a constant level of DNA marking per pound of cotton is provided at extraordinarily low levels.

In tandem with DNA tagging, APDN will license its "On-Site™" DNA authentication technology to provide real time testing of raw cotton fiber and greige goods, yielding an end-to-end supply chain solution to guarantee quality and support product claims. The licenses will be offered to supply chain members at every point at which the DNA-marked cotton changes hands.

Facilitated by Louis Dreyfus Commodities, APDN and their recently announced partnership with Divatex Home Fashions, the SigNature T DNA tagged cotton fibers will provide customers with the ultimate end-to-end traceable solution. Brand owners and retailers who comply with SigNature T marking and authentication for Pima cotton will be offered use of the "PimaCott™ Content Brand", co-licensed by Divatex and APDN.

The partners have already lined up their first customers and secured demand for over 20 million pounds of DNA-marked Pima cotton from multiple customers for the coming cotton-ginning season (September to January).

On June 15, 2015, APDN and Butler Evergreen formed an exclusive pre-application relationship. Butler Evergreen has filed a comprehensive application to become a registered organization under New York State's Medical Marijuana program.

Based on the partnership, Applied DNA Sciences will advise and consult Butler Evergreen in developing the most secure supply chain possible, with a particular focus on protecting products during transit and at dispensary locations if Butler Evergreen's NYS application is approved.

Among other systems, Butler Evergreen intends to install Applied DNA Sciences' SigNature® DNA in its transport boxes and armored vehicles. Similar to dye packs, this DNA tagging technology will discharge a liquid dye when a transport box is illegally accessed, tagging perpetrators and products with an event specific, traceable SigNature DNA taggant.

Similarly, Butler Evergreen intends to install Applied DNA Sciences' SmokeCloak® DNA System and Sentry Intruder Tagging System at dispensing locations. Should any security breach occur, intruders will again be tagged with a unique SigNature DNA mark. These incident-specific marks are traceable for 10 days on the subject's skin and several months on the subject's clothing and shoes. These systems will serve as a forensic tool that provides law enforcement with a means to identify offenders and any compromised products. The systems will also serve as powerful deterrent, with signage and labels letting possible offenders know that Butler Evergreen products are extremely secure.

Butler Evergreen also plans to use Applied DNA Sciences' technology to create product packaging. This will enhance seed-to-sale security, enabling the company to identify a product as authentic through unique SigNature DNA marks embedded in labels and packages.

On June 4, 2015, APDN and Divatex, a leading supplier of home textiles, announced the launch of HomeGrown™ — Cotton Proudly Grown in the USA. HomeGrown cotton will be exclusively American grown upland cotton. These fibers will be tagged at source, and verified from grower to consumer through Applied DNA Sciences' botanical DNA traceability technology.

We Maintain Our Buy rating with a 12-Month Price Target of $10.00

Based on the strong financial performance and recent operational achievements, we maintain our Buy rating for APDN shares and reiterate our 12-month price target of $10.00 per share.

We are impressed by the stellar financial performance for the fiscal 3Q15 and for the first nine months of fiscal 2015. Revenue in fiscal 3Q15 increased 170% year over year, and 49% quarter over quarter. The company achieved the highest quarterly revenue ever in the Company's history, which exceeded the $2.0 million mark. Below is the summary of the achievements for fiscal first quarter and fiscal first half of 2015.

We remain optimistic about APDN's prospect. APDN's fundamentals remain strong. The Company's technology is unique and has competitive advantages over its peers. The Company is well positioned to boost its top line and bottom line in the coming quarters. According to our long term financial model, the Company's revenue will grow at a compound annual growth rate (CAGR) of 60% in the next 5 fiscal years from 2015 to 2020. APDN will break even in 2017 and become profitable in fiscal 2018 with net income of $7.0 million or EPS of $0.27 per share. EPS will grow to $0.81 per share in fiscal 2010 based on total revenue of $45 million.

APDN is a high growth company. In terms of valuation, we apply a P/E of 32x to our estimated EPS of $0.81 in fiscal 2020, discounted at 20% for 5 years. This way, we get our price target of $10.00 per share. This values the company at about $210 million in market cap based on 21 million outstanding shares, which is reasonable in our view. As long as the Company can execute its growth strategy correctly, we believe value should be generated for shareholders.

PROJECTED INCOME STATEMENT

	2013A (SEP)	2014A (Sep)	2015E (Sep)					2016E (Sep)	2017E (Sep)	2018E (Sep)	2019E (Sep)	2020E (Sep)
$ in million except per share data	FYA	FYA	Q1	Q2	Q3	Q4	FYE	FYE	FYE	FYE	FYE	FYE
Total Revenues	**$2.04**	**$2.72**	**$1.24**	**$1.52**	**$2.27**	**$2.00**	**$7.03**	**$12.00**	**$17.50**	**$25.00**	**$35.00**	**$45.00**
YOY Growth	*9.8%*	*33.6%*	*107.9%*	*138.4%*	*169.6%*	*209.8%*	*158.3%*	*70.7%*	*45.8%*	*42.9%*	*40.0%*	*28.6%*
CoGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Income	**2.04**	**2.72**	**1.24**	**1.52**	**2.27**	**2.00**	**7.03**	**12.00**	**17.50**	**25.00**	**35.00**	**45.00**
Gross Margin	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
SG&A	$11.2	$13.2	$4.7	$2.9	$3.5	$4.0	$15.1	$15.0	$15.5	$16.0	$17.5	$18.5
% SG&A	*550.0%*	*486.9%*	*376.2%*	*191.0%*	*154.7%*	*200.0%*	*214.6%*	*125.0%*	*88.6%*	*64.0%*	*50.0%*	*41.1%*
R&D	$0.69	$1.30	$0.28	$0.37	$0.31	$0.42	$1.38	$1.50	$1.65	$1.70	$1.80	$1.95
% R&D	*34.0%*	*47.8%*	*22.4%*	*24.6%*	*13.7%*	*21.0%*	*19.7%*	*12.5%*	*9.4%*	*6.8%*	*5.1%*	*4.3%*
Other	$0.3	$0.4	$0.1	$0.1	$0.1	$0.1	$0.5	$0.3	$0.3	$0.3	$0.3	$0.3
% Other	*15.8%*	*16.3%*	*8.8%*	*8.1%*	*5.4%*	*5.0%*	*6.5%*	*2.5%*	*1.7%*	*1.2%*	*0.9%*	*0.7%*
Operating Income	**($10.2)**	**($12.3)**	**($3.8)**	**($1.9)**	**($1.7)**	**($2.5)**	**($9.9)**	**($4.8)**	**$0.1**	**$7.0**	**$15.4**	**$24.3**
Operating Margin	*-499.7%*	*-451.0%*	*-307.4%*	*-123.7%*	*-73.7%*	*-126.0%*	*-140.7%*	*-40.0%*	*0.3%*	*28.0%*	*44.0%*	*53.9%*
Other Net	($7.5)	($0.8)	($4.0)	($0.0)	$0.0	$0.0	($4.0)	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	**($17.7)**	**($13.1)**	**($7.8)**	**($1.9)**	**($1.7)**	**($2.5)**	**($13.9)**	**($4.8)**	**$0.1**	**$7.0**	**$15.4**	**$24.3**
Income taxes(benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Reported Net Income	**($17.7)**	**($13.1)**	**($7.8)**	**($1.9)**	**($1.7)**	**($2.5)**	**($13.9)**	**($4.8)**	**$0.1**	**$7.0**	**$15.4**	**$24.3**
YOY Growth	-	-	-	-	-	-	-	-	-	-	*120.00%*	*57.47%*
Net Margin	-	-	-	-	-	-	-	-	-	*28.0%*	*44.0%*	*53.9%*
Shares Out	*20.1*	*13.5*	*15.5*	*17.4*	*21.4*	*21.5*	*18.9*	*22.0*	*24.0*	*26.0*	*28.0*	*30.0*
Reported EPS	**($0.88)**	**($0.97)**	**($0.51)**	**($0.11)**	**($0.08)**	**($0.12)**	**($0.73)**	**($0.22)**	**$0.00**	**$0.27**	**$0.55**	**$0.81**
YOY Growth	-	-	-	-	-	-	-	-	*-101.0%*	*12823.1%*	*104.3%*	*47.0%*
One time charge	*$6.33*	*$2.63*	*$4.01*	*$0.00*	*$0.00*	*$0.00*	*$4.01*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($11.4)**	**($10.4)**	**($3.8)**	**($1.9)**	**($1.7)**	**($2.5)**	**($9.9)**	**($4.8)**	**$0.1**	**$7.0**	**$15.4**	**$24.3**
Non GAAP EPS	**($0.56)**	**($0.77)**	**($0.25)**	**($0.11)**	**($0.08)**	**($0.12)**	**($0.52)**	**($0.22)**	**$0.00**	**$0.27**	**$0.55**	**$0.81**

Source: Company filing and Zacks Investment Research estimates

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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